Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

February 2022 19th Year

Commodities

The energy sector starts to shine

Key Points:

- **S&P GSCI Commodity Index (GTX) continues upward path into 2022**
- **Performance between inflationary and deflationary assets starts to lean toward deflation**
- **The Livestock sector takes the top 90-day performance spot**
- **WTIC prices break above the 2021 high of $85.41**
- **Natural gas prices land on a crucial support level of $3.50**
- **Consolidation continues for gasoline prices near 2021 peak**
- **Gold prices hold at a crucial support level, for now**
- **The upward surge in base metals continues**
- **Copper prices hold above rising 50-week m/a**
- **Slow advance for S&P Agricultural Index**
- **Short-term pullback for U.S. dollar**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-4.48%	-4.48%	**833.02%**
S&P 500	-5.28%	-5.28%	351.46%

The 19-year average for the TS Model Portfolio – 13.05%
The 19-year average for the S&P 500 – 8.43%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 6.75% average dividend yield

S&P GSCI outlook: Upward trend

Outlook positive: The S&P GSCI Commodity Index (GTX) broke out above the resistance level of 2650 to 2700 in October, retested that level in November, and now moving higher. Rising oil and gas prices and additional support from strengthening US T-bond yields are helping to keep the GTX advancing in 2022 (**Chart 1**).

Buying momentum (RSI) is positive and still rising, suggesting higher levels into Q2.

5-year forecast models (**Chart 1a on page 2**) suggest some trend flattening into the second quarter with price levels remaining under 3,100.

What does it mean? The S&P GSCI Commodity Index is getting a slight lift from the ongoing rise in the U.S. T-bond yields. The trend for the GTX is expected to remain somewhat contained into early 2022, ranging from 2800 to 3100.

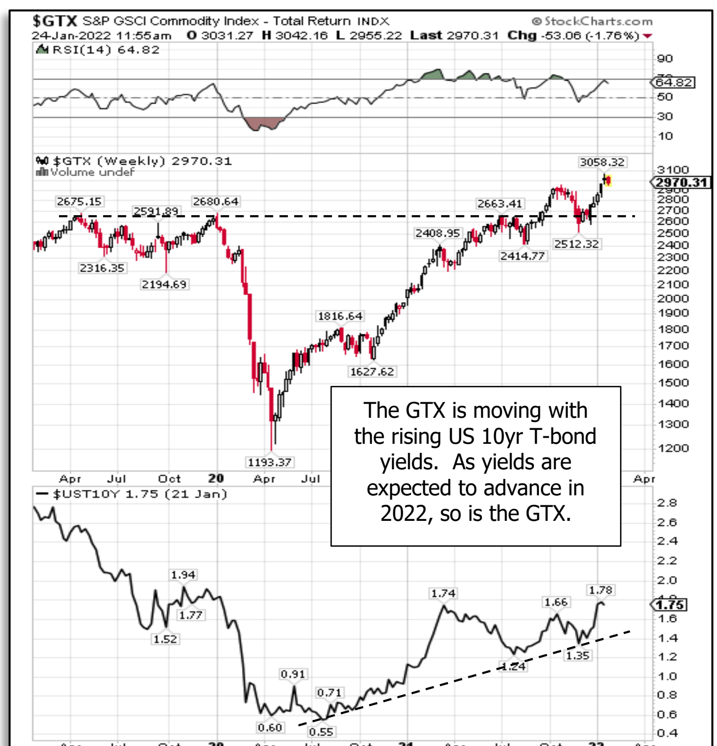

Chart 1

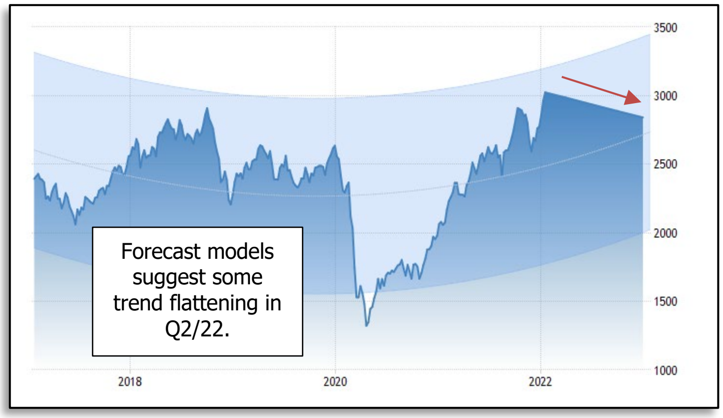

Chart 1a

Relative performance: GTX vs. S&P

Outlook neutral/positive: Near equal performance between the two assets continues into Q1/22. This pattern of performance began in early 2021. Any ongoing rise from the U.S. 10-year T-bond yields will help shift more upside performance toward the GTX and away from the S&P 500.

What does it mean? The guide to the performance between the two assets appears to be governed by the trading action of the U.S. 10 year T-bond yields. T-bond yields are expected to rise moderately over the next few months, suggesting that slightly higher performance will remain with the GTX over the S&P 500 (**Chart 2**).

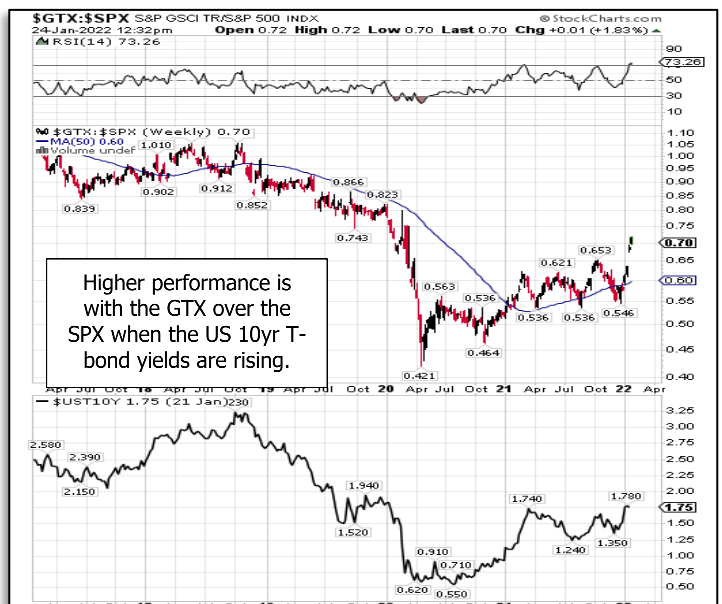

Chart 2

Deflation vs. inflation: Slow change

Outlook neutral: Inflationary assets are slowly losing the performance battle with deflationary assets (**Chart 3**).

Inflationary assets (commodities) had equal performance strength with deflationary investments (Dow stocks) for most 2020 and mid-2021. But commodities' relative performance decreased over the summer in Q3 and Q4.

What does it mean? The changing strength that started in Q3 points to a possible return of deflationary-asset dominance. We expect this trend to build slowly into Q2/22.

Chart 3

Commodity performance: Livestock

The S&P GSCI Livestock Index had the best 90-day performance. This sector and energy are the only sectors that outperformed the benchmark S&P GSCI Commodity Index (GTX). The precious-metals sector had the lowest performance in December through January (**Chart 4**)

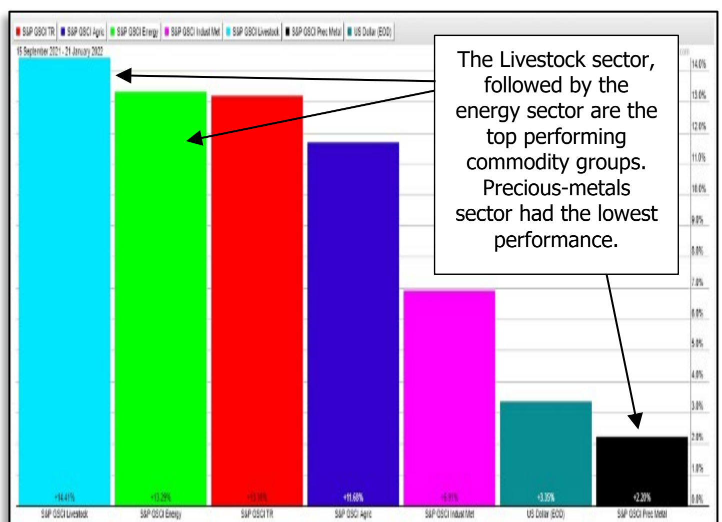

Chart 4

WTIC: Slow advance

Outlook: neutral/positive: Mirroring the trading pattern of the GTX, Light crude oil prices remain well supported due to investors balancing the recent bigger-than-expected drop in US crude inventories against mobility curbs in Asia. However, the weaker oil demand forecast from OPEC for Q2/22 and the resurgence in COVID cases in some countries have limited the rise in oil prices.

Technically, light crude oil prices maintain in a slow but steady advance, with $66 to $67 as a solid support level (**Chart 5**). Buying momentum (RSI) is positive (confirming upward strength), suggesting that higher levels lie away.

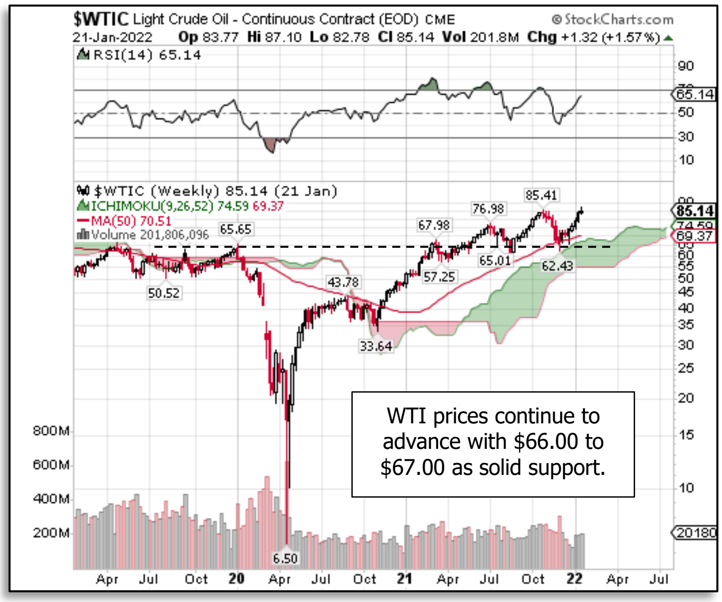

Chart 5

Five-year forecast models suggest a measured pullback or stall for WTI over the next few months. Models indicate that the price will remain under $87.00 in early 2022 (**Chart 5a**). US Crude Oil Stocks fell by 4.55 million barrels in mid-January. Lower supply helps aid the lift in WTI prices.

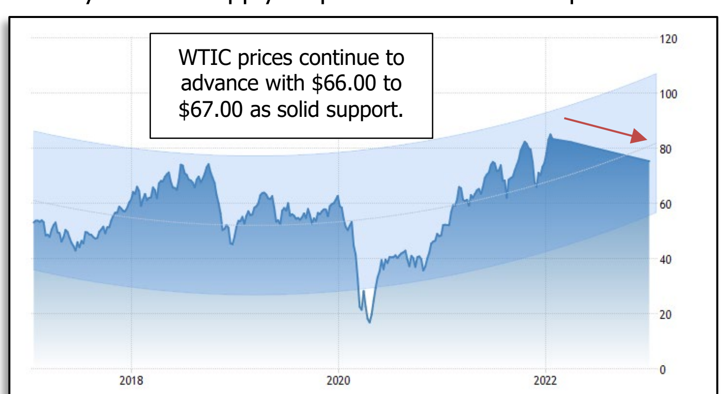

Chart 5a

What does it mean? WTIC is expected to remain in a consolidation with a topside price of about $87.00. The U.S. Energy Information Administration (EIA) predicts that oil demand will remain well balanced as COVID restrictions hold back mobility in Asia. This action will likely persist into Q2/22. Continue to hold oil positions, as any price weakness should be minimal.

Natural gas: Testing 50w m/a

Outlook: neutral/positive: The EIA states that U.S. stockpiles in the lower 48 states have shrunk more than anticipated to roughly 1% below the 5-year average. Weather forecasts indicate that temperatures will not be as cold as first predicted.

NatGas prices dropped to the 50-week m/a (a line that has proved both support and resistance) and found solid price support at $3.50. Buying momentum (RSI) is curling back up from an oversold reading (not yet confirming renewed momentum (**Chart 6**).

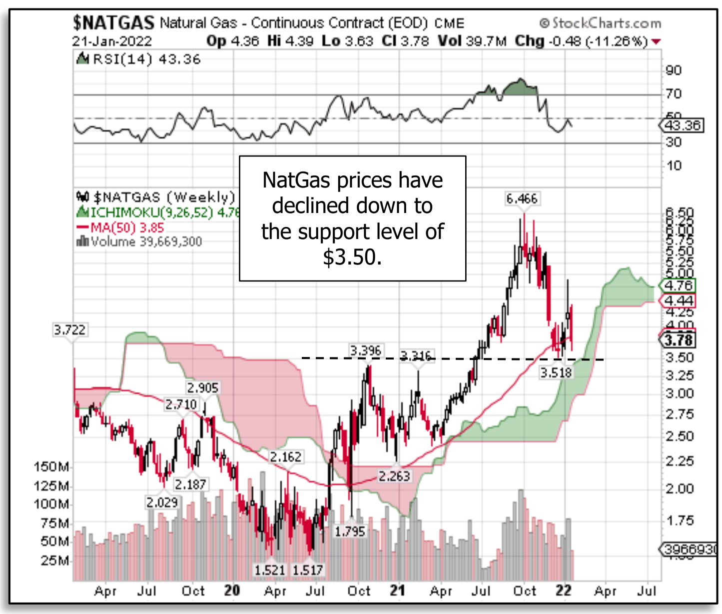

Chart 6

Five-year forecast models indicate that natural-gas prices have peaked at $6.47, and a gradual decline should be expected into 2022 (**Chart 6a on page 4**).

With the winter temperature outlook warmer than expected, models suggest that natural gas prices will hover around $4.00 over the next few months.

What does it all mean? Warmer than expected temperatures are easing the average demand for this commodity. Continue to hold natural-gas positions into Q1/22, but if NatGas drops below $3.50, we suggest lowering the position size.